



STATE OF DELAWARE

**PUBLIC SERVICE COMMISSION**

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**MEMORANDUM**

June 15, 2018

TO: The Chair and Members of the Commission

FROM: Joshua Bowman, Public Utility Analyst

SUBJECT: IN THE MATTER OF THE APPLICATION OF ARTESIAN WATER COMPANY, INC. FOR THE APPROVAL OF THE SEMI-ANNUAL ADJUSTMENT TO THE DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC) PURSUANT TO 26 DEL. C. § 314 (B) (5) (FILED NOVEMBER 29, 2016) – PSC DOCKET NO. 16-1085

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On November 29, 2016, Artesian Water Company, Inc. ("Artesian" or the "Company") filed with the Delaware Public Service Commission ("Commission") an application to reset its Distribution System Improvement Charge ("DSIC Rate") from 2.30% to 4.71% with an effective date of January 1, 2017. This DSIC Rate was based on net plant additions of \$6,247,258 placed into service between May 1, 2016 and October 31, 2016, along with an associated semi-annual depreciation expense of \$47,286.

On December 20, 2016, the Commission entered Order No. 9006, opening Docket No. 16-1085 and approving Artesian's request to reset the DSIC Rate, subject to Commission Staff's ("Staff") annual review, audit, and reconciliation to be performed based on the 12-month period ending December 31, 2017.

Artesian elected not to file an application for approval to adjust its DSIC Rate in May 2017. Therefore, the DSIC Rate of 4.71% carried over for the period of July 1, 2017 through December 31, 2017.

On April 12, 2018, Staff received the requested information for Docket No. 16-1085 and conducted the audit and review of the DSIC Rate. The audit consisted of the procedures utilized for each of the water

companies undergoing annual DSIC Rate audits. The audit concentrated on the three major components of the DSIC Rate; namely, Rate Base, Rate of Return, and Depreciation.

On February 7, 2018, Staff sent a letter to the water companies utilizing the DSIC, notifying them of a potential error in their calculation of their pre-tax rate of return. During the audit and review of Docket No. 16-1085, Artesian submitted schedules showing adjustments made due to the correction to the pre-tax rate of return utilized in the DSIC Rate calculation. These adjustments lowered the semi-annual DSIC revenue requirement which resulted in increased over-collection for the DSIC period for Docket No. 16-1085.

Findings for PSC Docket No. 16-1085: Effective Period January 1, 2017 – December 31, 2017

Associated with the Rate of Return is the revenue that the Company collected within the DSIC period. Staff reviewed a sampling of customer bills from the effective time period to determine if the billing accurately reflected the DSIC Rate component. No discrepancies were found.

The adjusted DSIC revenue requirement for the period January 1 through December 31, 2017 for this Docket was \$2,705,363. During this period, the Company collected \$3,136,227 in DSIC revenues. This resulted in an over-collection of \$430,863 of the DSIC revenue requirement for this period.

Staff then reviewed the Rate Base Components of the DSIC Rate calculation. The plant additions were reviewed for conformity with statutory requirements. Plant additions were traced by project and by account to the work orders and then to the general ledger. The Capital Expenditures Authorizations and Retirement Work Orders were reviewed to ascertain whether appropriate expenditures were included in the Rate Base components of the DSIC Rate. Staff believes that the plant portions of the DSIC Rate calculation are accurate.

Finally, Staff tested the Semi-Annual Depreciation Expense component of the DSIC Rate. The Company's calculation of total depreciation comported with the amount posted to the General Ledger, and the rates were the same approved by the Commission. Therefore, Staff recommends that the DSIC Rate of 4.71% in effect from January 1, 2017 through December 31, 2017, be approved as final.

The total over-collection of DSIC Revenue for the period of January 1, 2017 through December 31, 2017 after completion of the audit and review was \$430,863. This over-collection will be reconciled with interest for a total amount of \$447,108 in the Company's currently pending DSIC Rate application in PSC Docket No. 18-0474.

Staff has shared its findings with the Company and the DPA, and all parties are in agreement.